

**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**KNOX COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2002**

The Auditor of Public Accounts has completed the Knox County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Fund balances increased by \$79,477 from the beginning of the year, resulting in a cash surplus of \$1,402,839 as of June 30, 2002. Revenues increased by \$1,849,975 and disbursements increased by \$1,969,138.

**Receivables:**

None.

**Debt Obligations:**

Total bonded debt principal as of June 30, 2002, was \$3,057,000. Future collections of \$4,248,051 are needed over the next 21 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$159,550 as of June 30, 2002. Future principal and interest payments of \$170,657 are needed to meet these obligations.

Long-term participation principal agreements totaled \$369,322 as of June 30, 2002. Future collections of \$550,572 are needed over the next 13 years to pay all debt principal and interest.

**Report Comments:**

- The County Should Have A Written Agreement To Protect Deposits
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The Fiscal Court Should Pay Invoices In A Timely Manner
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- Cash Transferred From Restricted Funds Should Be Returned
- The County Should Take Action To Resolve Any Claims Against The County That Are In Dispute With The Vendor
- The County Should Ensure That The Knox County Public Properties Corporation Is Complying With Terms Of The 1981 Hospital Bond Issue
- The County Should Properly Account For All Bank Accounts Of The County
- The Former County Judge/Executive, County Jailer, And County Coroner Should Have Filed Their Bonds In The Office Of The County Clerk
- The County Should Maintain Documentation For Contracts
- The Fiscal Court Should Improve Control Over Minutes Of Fiscal Court Meetings
- The Jailer Did Not Maintain Accounting Records For The Jail Canteen Fund
- The County Should Disclose Related Party Transactions To The County Ethics Commission

**EXECUTIVE SUMMARY  
AUDIT EXAMINATION OF THE  
KNOX COUNTY FISCAL COURT  
Fiscal Year Ended June 30, 2002  
(Continued)**

**Report Comments: (Continued)**

- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The County Should Properly Maintain Personnel Records
- The County Treasurer And Finance Officer Should Properly Prepare An Appropriations Ledger For All County Funds
- The County Treasurer Should Include All Federal Revenues and Expenditures On The Federal Monies Worksheet
- The County Treasurer Should Account For Encumbrances Correctly
- Lacks Adequate Segregation Of Duties
- The County Should Have Complied With The Period Of Availability Of Federal Funds For The Brush Creek Water Line Extension Grant

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Gerald K. West, Former Knox County Judge/Executive

Honorable Raymond C. Smith, Knox County Judge/Executive

Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Knox County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances - all governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Knox County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Knox County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity as of June 30, 2002, of Knox County, Kentucky, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky

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Robbie Rudolph, Secretary

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In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2004 on our consideration of Knox County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Knox County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The Fiscal Court Should Pay Invoices In A Timely Manner
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- Cash Transferred From Restricted Funds Should Be Returned
- The County Should Take Action To Resolve Any Claims Against The County That Are In Dispute With The Vendor
- The County Should Ensure That The Knox County Public Properties Corporation Is Complying With Terms Of The 1981 Hospital Bond Issue
- The County Should Properly Account For All Bank Accounts Of The County
- The Former County Judge/Executive, County Jailer, And County Coroner Should Have Filed Their Bonds In The Office Of The County Clerk
- The County Should Maintain Documentation For Contracts
- The Fiscal Court Should Improve Control Over Minutes Of Fiscal Court Meetings
- The Jailer Did Not Maintain Accounting Records For The Jail Canteen Fund
- The County Should Disclose Related Party Transactions To The County Ethics Commission
- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The County Should Properly Maintain Personnel Records



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- The County Treasurer And Finance Officer Should Properly Prepare An Appropriations Ledger For All County Funds
- The County Treasurer Should Include All Federal Revenues and Expenditures On The Federal Monies Worksheet
- The County Treasurer Should Account For Encumbrances Correctly
- Lacks Adequate Segregation Of Duties
- The County Should Have Complied With The Period Of Availability Of Federal Funds For The Brush Creek Water Line Extension Grant

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -  
March 1, 2004



KNOX COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Gerald K. West	County Judge/Executive
Carson Gilbert	Magistrate
Willard Bargo	Magistrate
Bob Mac Merrit	Magistrate
Larry Jones	Magistrate
Guilio Cima	Magistrate

**Other Elected Officials:**

David Jorjani	County Attorney
Preston Smith	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
Wilbur Bingham	Sheriff
Roger Deaton	Property Valuation Administrator
Jerry Garland	Coroner

**Appointed Personnel:**

Wanda F. Moore	County Treasurer and Occupational Tax Collector
Amy Lambert	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 293,436	\$ 549,907	\$ 540,804
Total Assets	\$ 293,436	\$ 549,907	\$ 540,804
<u>Other Resources</u>			
Amounts to Be Provided In Future Years for:			
Road Garage Lease Principal (Note 7A)	\$ 4,297	\$	\$
Road Grader Lease Principal (Note 7B)	155,253		
Jail Participation Agreement - Bond Principal (Note 6)	369,322		
General Obligation Bond Anticipation Note: Bond Principal Payments (Note 4)			3,600,000
Public Properties Corporation Fund: Bond Principal (Note 5A)			477,000
Public Properties Corporation Fund: Bond Principal (Note 5B)			79,539
Public Properties Corporation Fund: Bond Principal (Note 5C)			1,959,657
Total Other Resources	\$ 528,872	\$ 0	\$ 6,116,196
Total Assets and Other Resources	\$ 822,308	\$ 549,907	\$ 6,657,000

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$ 19,689	\$ 1,403,836
\$ 19,689	\$ 1,403,836
\$	\$ 4,297
	155,253
	369,322
	3,600,000
	477,000
	79,539
	1,959,657
\$ 0	\$ 6,645,068
\$ 19,689	\$ 8,048,904

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease:			
Road Garage Lease Principal (Note 7A)	\$ 4,297	\$	\$
Road Grader Lease Principal (Note 7B)	155,253		
Bonds:			
General Obligation Bond Anticipation Note:			
Bond Principal Payments (Note 4)			3,600,000
Jail Participation Agreement -			
Bond Principal Payments (Note 6)	369,322		
Public Properties Corporation Fund:			
1981 Bond Issue:			
Bond Principal Not Matured (Note 5A)			477,000
1991 Bond Issue:			
Bond Principal Not Matured (Note 5B)			155,000
1997 Bond Issue:			
Bond Principal Not Matured (Note 5C)			2,425,000
Total Liabilities	<u>\$ 528,872</u>	<u>\$ 0</u>	<u>\$ 6,657,000</u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$	\$
Unreserved	293,436	549,907	
Total Equity	<u>\$ 293,436</u>	<u>\$ 549,907</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 822,308</u></u>	<u><u>\$ 549,907</u></u>	<u><u>\$ 6,657,000</u></u>

The accompanying notes are an integral part of the financial statements.



KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$	\$ 4,297
	155,253
	3,600,000
	369,322
	477,000
	155,000
	<u>2,425,000</u>
<u>\$ 0</u>	<u>\$ 7,185,872</u>
\$ 19,689	\$ 19,689
	<u>843,343</u>
<u>\$ 19,689</u>	<u>\$ 863,032</u>
<u>\$ 19,689</u>	<u>\$ 8,048,904</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

KNOX COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 7,437,464	\$ 1,172,244	\$ 140,647	\$ 705,493
Other Financing Sources:				
Transfers In	135,000	1,565,000	411,000	
Bond Anticipation Note				
Kentucky Advance Revenue Program	4,964,900			
AOC Bond Payment				
Total Cash Receipts	<u>\$ 12,537,364</u>	<u>\$ 2,737,244</u>	<u>\$ 551,647</u>	<u>\$ 705,493</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,569,426	\$ 2,511,679	\$ 552,861	\$ 728,685
Other Financing Uses:				
Transfers Out	2,095,073	227,507		15,000
Bonds:				
Bond Anticipation Principal				
Principal Paid				
Interest Paid				
Trustee Fees				
Kentucky Advance Revenue Program Repaid	4,964,900			
Jail Participation Agreement:				
Principal Paid			17,994	
Kentucky State Treasurer-County Garage Lease Principal Paid		2,149		
Total Cash Disbursements	<u>\$ 12,629,399</u>	<u>\$ 2,741,335</u>	<u>\$ 570,855</u>	<u>\$ 743,685</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (92,035)	\$ (4,091)	\$ (19,208)	\$ (38,192)
Prior Year Voided Checks	13,081	2,594	1,481	
Cash Balance - July 1, 2001	<u>275,295</u>	<u>51,020</u>	<u>20,889</u>	<u>81,605</u>
Cash Balance - June 30, 2002	<u><u>\$ 196,341</u></u>	<u><u>\$ 49,523</u></u>	<u><u>\$ 3,162</u></u>	<u><u>\$ 43,413</u></u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

Special Revenue Fund Type				
Timberland Tax Fund	Kay Jay Recreation Fund	911 Fund	Solid Waste Fund	Harlan-Knox Joint 911 Fund
\$ 1,547	\$ 11,035	\$ 202,075	\$ 28,247	\$ 100,183
		1,845	132,228	
<u>\$ 1,547</u>	<u>\$ 11,035</u>	<u>\$ 203,920</u>	<u>\$ 160,475</u>	<u>\$ 100,183</u>
\$ 7	\$ 3,148	\$ 117,791	\$ 144,300	\$
<u>\$ 7</u>	<u>\$ 3,148</u>	<u>\$ 117,791</u>	<u>\$ 144,300</u>	<u>\$ 0</u>
\$ 1,540	\$ 7,887	\$ 86,129	\$ 16,175	\$ 100,183
37	4,838	269,546	5,329	58,243
<u>\$ 1,577</u>	<u>\$ 12,725</u>	<u>\$ 355,675</u>	<u>\$ 21,504</u>	<u>\$ 158,426</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

	Debt Service Fund Type			Totals (Memorandum Only)
	Knox County Public Properties Corporation Fund - 1991 Bond Issue	Knox County Public Properties Corporation Fund - 1997 Bond Issue	Knox County Public Properties Corporation Fund- 2002 Bond Issue	
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,781	\$ 20,640	\$	\$ 9,821,356
Other Financing Sources:				
Transfers In	92,507			2,337,580
Bond Anticipation Note			3,600,000	3,600,000
Kentucky Advance Revenue Program				4,964,900
AOC Bond Payment		186,300		186,300
Total Cash Receipts	\$ 94,288	\$ 206,940	\$ 3,600,000	\$ 20,910,136
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$		\$ 9,627,897
Other Financing Uses:				
Transfers Out				2,337,580
Bonds:				
Bond Anticipation Principal			3,600,000	3,600,000
Principal Paid	80,000	65,000		145,000
Interest Paid	14,625	122,846		137,471
Trustee Fees	352			352
Kentucky Advance Revenue Program Repaid				4,964,900
Jail Participation Agreement: Principal Paid				17,994
Kentucky State Treasurer- County Garage Lease Principal Paid				2,149
Total Cash Disbursements	\$ 94,977	\$ 187,846	\$ 3,600,000	\$ 20,833,343
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (689)	\$ 19,094	\$	\$ 76,793
Prior Year Voided Checks				17,156
Cash Balance - July 1, 2001	76,150	446,249		1,289,201
Cash Balance - June 30, 2002	\$ 75,461	\$ 465,343	\$ 0	\$ 1,383,150

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE





KNOX COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 4,824
Total Cash Receipts	\$ 4,824
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 2,140
Total Cash Disbursements	\$ 2,140
Excess of Cash Receipts Over Cash Disbursements	\$ 2,684
Cash Balance - July 1, 2001	17,005
Cash Balance - June 30, 2002	\$ 19,689

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE



KNOX COUNTY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	Enterprise Funds Jail Canteen
Cash Flows From Operating Activities:	
Operating Income	\$ 2,684
Net Cash Provided By Operating Activities	\$ 2,684
Net Increase in Cash and Cash Equivalents	\$ 2,684
Cash and Cash Equivalent - July 1, 2001	17,005
Cash and Cash Equivalent - June 30, 2002	\$ 19,689

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Knox County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14. Management has included the Knox County Public Properties Corporation as part of the reporting entity.

Knox County Public Properties Corporation

The Knox County Public Properties Corporation (the corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The corporation's governing body consists entirely of fiscal court members. Therefore management must include the corporation as a component unit, and the corporation's financial activity has been blended with that of the fiscal court.

Additional - Knox County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Knox County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Knox County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Knox County Special Revenue Fund Type includes the following county funds: Timberland Tax Fund, Kay Jay Recreation Fund, 911 Fund, Solid Waste Fund and Harlan-Knox Joint 911 Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Knox County Public Properties Corporation Fund – 1981 Bond Issue, 1991 Bond Issue, 1997 Bond Issue, and 2002 Bond Issue. Debt service is provided through annual payments made directly by the Knox County Hospital Operating Board for the 1981 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year for the 1991 Bond Issue. Debt service is provided through annual payments made directly by the Administrative Office of the Courts for the 1997 Bond Issue.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Knox County Enterprise Fund Type includes the jail canteen fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Knox County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Knox County Public Properties Corporation Fund 1981 Bond Issue, 1991 Bond Issue, 1997 Bond Issue, and the 2002 Bond Issue (Debt Service Fund Type). Bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The payments for the 1981 Bond Issue are made directly by the Knox County Hospital Operating Corporation. The payments for the 1997 Bond Issue are made directly by the Administrative Office of the Courts. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Knox County Ambulance Service and the Knox County Utility Commission are considered related organizations of Knox County Fiscal Court.



KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

Note 4. Short-Term Debt

On February 12, 2002, the County entered into a note agreement with the Union National Bank and Trust Company of Barbourville, Kentucky for a sum of \$3,600,000. The terms of the note included interest rate of 4.5% and maturity date of February 1, 2003. As of June 30, 2002, the balance of the note was \$3,600,000.

Note 5. Long-Term Debt

A. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1981

In October 1981, the Knox County Public Properties Corporation obtained various permanent financing of various construction loans from the Farmers Home Administration (FmHA), an agency of the United States Department of Agriculture, through the issuance of First Mortgage Bonds in the amount of \$1,000,000. The Knox County Hospital Operating Corporation leases all hospital property and equipment from the Municipal Properties Corporation for an annual rental equal to the amounts required under the Mortgage Deed of Trust. Annual rentals approximate amounts due for principal and interest on the bonds.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

A. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1981  
(Continued)

Under the terms of the Mortgage Deed of Trust, FmHA purchased the entire bond issue at a five percent (5%) interest rate, payable each January 1, and July 1 beginning July 1, 1982. The entire principal is due on January 1, 2010. The bonds are secured by a mortgage lien against all land, buildings and equipment of the Hospital including all rents and profits derived from such properties.

On September 21, 1987, the Farmers Home Administration (FmHA) notified the Hospital that the Omnibus Budget Reconciliation Act of 1986 required FmHA to sell a portion of its loan portfolio. In September 1987, the Hospital's FmHA loan was sold to GMAC Commercial Mortgage, but the Hospital's obligations and covenants made under the original loan agreement and debt instrument remained unaffected by this sale.

The principal balance outstanding at June 30, 2002, was \$477,000. The County currently is not in compliance with the terms of the agreement. The debt service requirements are presented as follows:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 03	5%	\$ 23,850	\$ -
FY 04	5%	23,850	-
FY 05	5%	23,850	-
FY 06	5%	23,850	-
FY07	5%	23,850	-
FY 08 - FY 10	5%	61,613	477,000
Total		<u>\$ 180,863</u>	<u>\$ 477,000</u>

B. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1991

The county is liable for \$155,000 of outstanding bonds issued on August 1, 1991 at various interest rates by the Knox County Municipal Public Properties Corporation. Principal payments are due each year on August 1, in the amounts indicated below. Interest is due on the bonds each February 1 and August 1, beginning February 1, 1992.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	7.50	<u>\$ 11,626</u>	<u>\$ 155,000</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

C. Knox County Municipal Properties Corporation - Revenue Bonds Series 1997

On September 5, 1996, the Knox County Kentucky Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining office rental space for the AOC at the Justice Center. Subsequently, on December 17, 1997, the Knox County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Knox County Justice Center.

The Knox County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The Knox County Kentucky Public Properties Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payments as provided in the lease. The lease agreement is renewable each year. The Knox County Kentucky Public Properties Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2022, but the lease does not legally obligate the AOC to do so.

The debt service requirements for the First Mortgage Revenue Bonds are presented as follows:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 03	4.35	\$120,036	\$65,000
FY 04	4.35	117,209	65,000
FY 05	4.40	114,145	75,000
FY 06	4.50	110,808	75,000
FY 07	4.60	107,280	80,000
FY 08 - FY 12	Various	472,050	475,000
FY 13 - FY 17	Various	336,898	610,000
FY 17 - FY 22	Various	156,130	795,000
FY 23	5.20	4,810	185,000
Total		<u>\$1,539,366</u>	<u>\$2,425,000</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,378,870 of revenue bonds at various interest rates, of which the county has agreed to pay \$551,095 principal and a proportional share of interest. Revenue bonds outstanding as of June 30, 2002, totaled \$369,322. Principal payments are due each year on October 1 in the amounts indicated below. Interest payments are due each year on October 1 and April 1. Remaining debt service requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 22,812	\$ 19,135
2004	21,560	20,348
2005	20,229	21,638
2006	18,813	23,010
2007	17,308	24,470
2008 to 2012	69,483	147,687
2010 to 2015	11,045	113,034
	<u>\$ 181,250</u>	<u>\$ 369,322</u>

Note 7. Capital Lease - Purchase Agreements

A. Commonwealth of Kentucky - Road Garage Lease

On February 27, 1985, the county entered into a lease-purchase agreement with the Commonwealth of Kentucky for the purpose of obtaining a road garage. Terms of the agreement stipulate a twenty-year repayment schedule with an annual principal payment of \$2,149. The county may purchase the road garage at any time for a specified price of \$42,975 less the total of any prior payments. Principal payments are due each year on March 1, in the amount indicated below. Remaining debt service requirements are as follows:

<u>Fiscal Year Ending</u>	<u>Principal Amount</u>
June 30, 2003	\$ 2,149
June 30, 2004	2,148
Totals	<u>\$ 4,297</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 7. Capital Lease - Purchase Agreements (Continued)

B. Caterpillar Financial Services Corporation - Motor Grader

The county entered into a lease-purchase agreement with Caterpillar Financial Services Corporation on May 6, 2002, for a motor grader. The terms of the lease require thirty-six (36) payments of \$4,892 per month. Beginning principal amount was \$163,746. The County made principal payments of \$8,493 and interest payments \$1,293 leaving an outstanding balance of \$155,253 as of June 30, 2002.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 03	4.80%	\$ 6,309	\$ 52,406
FY 04	4.80%	3,738	54,977
FY 05	4.80%	1,060	47,870
Total		<u>\$ 11,107</u>	<u>\$ 155,253</u>

Note 8. Interfund Transfers

The County transferred \$28,000 from the Local Government Economic Assistance (LGEA) Fund to the General Fund during a prior year. The funds were not transferred back to the LGEA Fund; therefore, the General Fund owes the LGEA Fund \$28,000.

Note 9. Related Party Transactions

The county rented office space from Magistrate Bob “Mac” Merritt’s brother. During fiscal year ended June 30, 2002, payments for office rental totaled \$2,600. The County’s administrative code does not require bidding for lease property except as provided in KRS 424.260.

Note 10. Subsequent Events

A. Commitments and Contingencies

The Knox County Hospital Operating Board issued \$11,540,000 of bonds on January 18, 2001, for the construction of a new hospital. The Knox County Fiscal Court is not responsible for this debt. The hospital then borrowed \$495,000 from the bank for construction work on the hospital, which the county was contingently responsible for. The hospital operating board then issued an additional \$1,115,000 of bonds on May 31, 2001 and \$3,600,000 of bonds on February 12, 2002, for the completion of construction on the new Knox County Hospital. The County could be contingently responsible for this debt. The \$495,000 note from the bank was paid off from the proceeds of the \$1,115,000 bond issue. The county is currently in the process of determining their liability associated with the debt.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 10. Subsequent Events (Continued)

B. Knox County Jail

The Knox County Judge/Executive was informed by the Department of Corrections that the Knox County Jail was being closed on September 30, 2002, due to it being unsafe to house inmates. The Knox County Fiscal Court declared a State of Emergency in order for the County Judge/Executive to take necessary action to get the jail in compliance with the Department of Corrections guidelines. The Department of Corrections allowed the Knox County Jail to reopen on November 27, 2002, after passing a follow-up inspection. The fiscal court then closed the jail on June 2, 2003, for public safety issues. There is pending litigation related to the closing of the jail between the fiscal court, jailer, and the sheriff.

Note 11. Insurance

For the fiscal year ended June 30, 2000, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





KNOX COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 9,577,756	\$ 7,437,464	\$ (2,140,292)
Road and Bridge Fund	1,007,605	1,172,244	164,639
Jail Fund	112,807	140,647	27,840
Local Government Economic Assistance Fund	1,344,000	705,493	(638,507)
<u>Special Revenue Fund Type</u>			
Timberland Tax Fund	1,525	1,547	22
Kay Jay Recreation Fund	37,100	11,035	(26,065)
911 Fund	178,000	202,075	24,075
Solid Waste Fund	203,870	28,247	(175,623)
Harlan-Knox County 911 Fund	31,000	100,183	69,183
Totals	<u>\$ 12,493,663</u>	<u>\$ 9,798,935</u>	<u>\$ (2,694,728)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 12,493,663
Add: Budgeted Prior Year Surplus			723,800
Less: Other Financing Uses			<u>(123,292)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 13,094,171</u>

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SCHEDULE OF OPERATING REVENUE



KNOX COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>GOVERNMENTAL FUND TYPE</u>				
<u>Revenue Categories</u>	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 2,986,233	\$ 2,806,322	\$ 179,911	\$
In Lieu Tax Payments	9	9		
Licenses and Permits	207	182	25	
Intergovernmental Revenues	3,631,870	3,488,610	143,260	
Charges for Services	985	985		
Miscellaneous Revenues	3,152,579	3,144,380	8,199	
Interest Earned	49,473	15,360	11,692	22,421
Total Operating Revenue	<u>\$ 9,821,356</u>	<u>\$ 9,455,848</u>	<u>\$ 343,087</u>	<u>\$ 22,421</u>

<u>PROPRIETARY FUND TYPE</u>	
<u>Revenue Categories</u>	Enterprise Fund Type
Miscellaneous Revenues	<u>\$ 4,824</u>
Total Operating Revenue	<u>\$ 4,824</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





KNOX COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,490,940	\$ 1,370,559	\$ 120,381
Protection to Persons and Property	649,300	555,045	94,255
General Health and Sanitation	570,390	567,731	2,659
Social Services	20,500	19,443	1,057
Roads	2,442,223	2,396,679	45,544
Other Transportation Facilities and Services	505,480	404,060	101,420
Debt Service	27,877	33,774	(5,897)
Administration	6,572,166	4,015,360	2,556,806
 Total Operating Budget - General Fund Type	 \$ 12,278,876	 \$ 9,362,651	 \$ 2,916,225
Other Financing Uses:			
Transfers to Detention Center			
Corporation Bond Fund-			
Principal	78,615	78,615	
Interest	13,892	13,892	
Garage Lease	2,149	2,149	
Road Grader	10,642	10,642	
Jail Participation Agreement -			
Principal	17,994	17,994	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 12,402,168	 \$ 9,485,943	 \$ 2,916,225

KNOX COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

<u>Expenditure Categories</u>	<u>SPECIAL REVENUE FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
General Government	\$ 569,625	\$ 117,798	\$ 451,827
General Health and Sanitation	204,070	144,300	59,770
Recreation and Culture	<u>41,600</u>	<u>3,148</u>	<u>38,452</u>
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 815,295</u>	<u>\$ 265,246</u>	<u>\$ 550,049</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Gerald K. West, Former Knox County Judge/Executive  
The Honorable Raymond C. Smith, Knox County Judge/Executive  
Members of the Knox County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Knox County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Knox County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2002-1:** The County Should Have A Written Agreement To Protect Deposits
- **Reference Number 2002-2:** The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- **Reference Number 2002-3:** The Fiscal Court Should Pay Invoices In A Timely Manner
- **Reference Number 2002-4:** All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- **Reference Number 2002-5:** Cash Transferred From Restricted Funds Should Be Returned
- **Reference Number 2002-6:** The County Should Take Action To Resolve Any Claims Against The County That Are In Dispute With The Vendor



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance (Continued)

- **Reference Number 2002-7:** The County Should Ensure That The Knox County Public Properties Corporation Is Complying With Terms Of The 1981 Hospital Bond Issue
- **Reference Number 2002-8:** The County Should Properly Account For All Bank Accounts Of The County
- **Reference Number 2002-9:** The Former County Judge/Executive, County Jailer, And County Coroner Should Have Filed Their Bonds In The Office Of The County Clerk
- **Reference Number 2002-10:** The County Should Maintain Documentation For Contracts
- **Reference Number 2002-11:** The Fiscal Court Should Improve Control Over Minutes Of Fiscal Court Meetings
- **Reference Number 2002-12:** The Jailer Did Not Maintain Accounting Records For The Jail Canteen Fund
- **Reference Number 2002-13:** The County Should Disclose Related Party Transactions To The County Ethics Commission

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knox County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Knox County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2002-14:** Adequate Supporting Documentation Should Be Maintained For All Expenditures
- **Reference Number 2002-15:** The County Should Properly Maintain Personnel Records
- **Reference Number 2002-16:** The County Treasurer And Finance Officer Should Properly Prepare An Appropriations Ledger For All County Funds
- **Reference Number 2002-17:** The County Treasurer Should Include All Federal Revenues And Expenditures On The Federal Monies Worksheet
- **Reference Number 2002-18:** The County Should Account For Encumbrances Correctly
- **Reference Number 2002-19:** Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider Numbers 2002-14, 2002-17, and 2002-19 to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 1, 2004

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REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gerald K. West, Former Knox County Judge/Executive  
The Honorable Raymond C. Smith, Knox County Judge/Executive  
Members of the Knox County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Knox County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Knox County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Knox County's management. Our responsibility is to express an opinion on Knox County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knox County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Knox County's compliance with those requirements.

As described in Reference Number: 2002-20 in the accompanying schedule of findings and questioned costs - The County Should Have Complied With The Availability Terms Of The Brush Creek Water Line Extension Grant. Knox County did not comply with requirements regarding Period of Availability that are applicable to its grant received from the U.S. Department of Housing and Urban Development and passed through the State Department for Local Government. Compliance with such requirements is necessary, in our opinion, for Knox County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Knox County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Knox County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Knox County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Knox County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- **Reference Number: 2001-20:** The County Should Have Complied With The Period Of Availability Of Federal Funds For The Brush Creek Water Line Extension Grant

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 1, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Knox County.
2. Six reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. Three of these reportable conditions are reported as material weaknesses.
3. Twelve instances of noncompliance material to the financial statements of Knox County were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report. That condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards programs for Knox County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for Knox County are reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - Brush Creek Water Line Extension Project, CFDA # 14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Knox County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES

**Reference Number 2002-1**

The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of August 31, 2001, the county had bank deposits with one of its depository institutions of \$431,054; FDIC insurance of \$100,000; and collateral pledged or provided of \$367,171. Even though the county obtained sufficient collateral of \$367,171, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

*Former County Judge/Executive Gerald West's Response:*

*We have taken care of this.*

KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

**Reference Number 2002-2**

The County Judge/Executive Should Present All Claims To The Fiscal Court For Review

The county judge/executive did not present all claims to the fiscal court. KRS 68.275(2) states the county judge/executive shall present all claims to the fiscal court for review prior to payment and the court for good cause shown, may order that a claim not be paid. We recommend the county judge/executive comply with KRS 68.275(2) by approving all claims prior to payment being made.

*Former County Judge/Executive Gerald West's Response:*

*We agree.*

**Reference Number 2002-3**

The Fiscal Court Should Pay Invoices In A Timely Manner

During the course of our audit, we found that numerous invoices were not paid in a timely manner. KRS 65.140 states that all bills for goods or services shall be paid within thirty working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. We recommend that the county comply with KRS 65.140 by paying invoices within thirty working days.

*Former County Judge/Executive Gerald West's Response:*

*We agree.*

**Reference Number 2002-4**

All County Employees And Officials Should Receive The Same Medical Insurance Coverage

The county is paying for family medical insurance coverage on certain individuals. Single medical coverage is paid on the majority of county personnel. We recommend the fiscal court review this disparity to determine whether it is in compliance with the county personnel policy.

*Former County Judge/Executive Gerald West's Response:*

*We agree.*



KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

**Reference Number 2002-5**

Cash Transferred From Restricted Funds Should Be Returned

During fiscal year ended June 30, 1999, \$28,000 was transferred from the LGEA Fund to the General Fund, without being returned. Therefore, the General Fund owes the LGEA Fund \$28,000. We recommend that the county treasurer return the \$28,000 from the General Fund to the LGEA Fund.

*Former County Judge/Executive Gerald West's Response:*

*We agree and will do this.*

*Current County Judge/Executive Raymond C. Smith's Response:*

*We will check this out.*

**Reference Number 2002-6**

The County Should Take Action To Resolve Any Claims Against The County That Are In Dispute With The Vendor

There are some claims against the county made by the Knox County General Hospital that have not been paid. The claims were in dispute between the hospital and the county. The county had refused to pay these claims because sufficient documentation had not been obtained to substantiate payment of the claims. However subsequent to the fiscal year ended June 30, 2002, the county did obtain documentation and made interest payments totaling \$78,169 to Union National Bank to be applied toward payment of these claims. We recommend the county pay claims against the county.

*Former County Judge/Executive Gerald West's Response:*

*This has been resolved.*

**Reference Number 2002-7**

The County Should Ensure That The Knox County Public Properties Corporation Is Complying With Terms Of The 1981 Hospital Bond Issue

The terms of the 1981 hospital bond issue are not being complied with. The Knox County Public Properties Corporation (owned by the county) issued bonds for the construction of the former Knox County Hospital (prior to the new one being built). The Knox County Fiscal Court had an agreement with the hospital that stated the hospital would be responsible for paying the debt as long as the property produced income. The Knox County Hospital Operating Corporation built a new hospital in 2000. However, they rented the old hospital building out as a doctors' park, which resulted in the property producing income. Therefore the hospital remains responsible for the debt. The Knox County Fiscal Court owns the property. The hospital agreed to collect rent from the

KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

**Reference Number 2002-7 (Continued)**

The County Should Ensure That The Knox County Public Properties Corporation Is Complying With Terms Of The 1981 Hospital Bond Issue

doctors and pay the bond payments. The terms of the agreement are not being complied with. Payments are not being paid as required. We recommend that the county take action to ensure that the terms of the bond agreement are being complied with.

*Former County Judge/Executive Gerald West's Response:*

*We recommend talking to the current county judge.*

*Current County Judge/Executive Raymond C. Smith's Response:*

*This is being taken care of.*

**Reference Number 2002-8**

The County Should Properly Account For All Bank Accounts Of The County

The county has not been accounting for the bank accounts related to the 1997 AOC Bond Issue. We found during the course of our audit that the Knox County Municipal Properties Corporation had a Debt Service Reserve Account with a balance of \$260,131, a Bond Sinking Fund Account with a balance of \$205,189, and a Costs of Issuance Account with a balance of \$38. The Debt Service Reserve Account is required to be maintained by the terms of the bond agreement. Bond Sinking Fund Accounts are generally only used to acquire funds for payments to the bondholders and then account is zeroed out until the accumulation of more funds for the next series of bond payments. However, there seems to be a large balance in this account that is being continually maintained. Based upon review of the bank statements and the terms of the bond agreement, it appears that the balance is the result of AOC beginning their bond payments one year earlier than the agreement called for. Further review of the bank statements for the Bond Sinking Fund Account revealed that the bank had been instructed to not mail out the bank statements. We recommend that the county contact AOC and determine why this money is there and develop a plan of action for reducing the balance to the appropriate level. In addition, we recommend that the county instruct the banks to send out all bank statements (for the county and the public properties corporation) to the attention of the county treasurer. The county should close out the Cost of Issuance account. The account has a \$38 balance as of June 30, 2002. The only activity related to this account since the project was closed out, is service charges and dormant fee charges, which have been reimbursed to the account by the bank. We recommend that the county close out this account as it is no longer needed.

*Former County Judge/Executive Gerald West's Response:*

*We will close this account out.*

KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

**Reference Number 2002-9**

The Former County/Judge Executive, County Jailer, And County Coroner Should Have Filed Their Bonds In The Office Of The County Clerk

We were unable to find where the former county/judge executive, county jailer, and county coroner filed their bonds in the office of the county clerk. KRS 67.720, KRS 71.010, and KRS 72.010 require these elected officials to file their bonds in the office of the county clerk prior to taking office. We recommend that the official bonds be properly filed in the county clerk's office.

*Former County Judge/Executive Gerald West's Response:*

*We have these filed now.*

**Reference Number 2002-10**

The County Should Maintain Documentation For Contracts

The county purportedly entered into a contract with Glenna Hampton for the purpose of writing grant applications. Ms. Hampton was paid \$4,300 during fiscal year ended June 30, 2002. Auditors were presented with an unsigned copy of the contract. To be valid, a contract must be signed. However, the county could not provide auditors with a signed copy of the agreement. We recommend the fiscal court maintain documentation for all contracts in the future.

*Former County Judge/Executive Gerald West's Response:*

*We agree.*

**Reference Number 2002-11**

The Fiscal Court Should Improve Control Over Minutes of Fiscal Court Meetings

There were expenditures of federal funds that were not documented as being approved by the fiscal court in the fiscal court minutes. Auditors were told the minutes had not been properly recorded. The fiscal court approved the expenditures later. We recommend the fiscal court take precautions to properly record the minutes of the fiscal court meetings.

*Former County Judge/Executive Gerald West's Response:*

*We agree.*

KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

**Reference Number 2002-12**

The Jailer Did Not Maintain Accounting Records For The Jail Canteen Fund

The jailer did not maintain minimum accounting records for the Jail Canteen Fund. There were no receipts ledger, disbursements ledger or daily checkout sheets. In addition, the jailer did not prepare bank reconciliations for the bank account. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. We recommend the jailer comply with KRS 441.135(2) by maintaining the proper accounting records.

*Former County Judge/Executive Gerald West's Response:*

*We don't have an operating jail now.*

Auditor's Reply:

During the year under audit, the county did have an operating jail and the jailer did not properly maintain records.

**Reference Number 2002-13**

The County Should Disclose Related Party Transactions To The County Ethics Commission

The County rented office space from Magistrate Bob "Mac" Merritt's brother. During fiscal year ended June 30, 2002, payments for office rental totaled \$2,600. The County's administrative code does not require bidding for lease property except as provided in KRS 424.260. However, we recommend the County Ethics Commission review these transactions to determine if they comply with the County's ethics code as it relates to related party transactions.

*Former County Judge/Executive Gerald West's Response:*

*This magistrate is no longer with us.*

KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS:

**Reference Number 2002-14**

Adequate Supporting Documentation Should Be Maintained For All Expenditures

During our test of expenditures, we found that adequate supporting documentation was not maintained for some of the county expenditures. We recommend that the county maintain documentation for all county expenditures in the future.

*Former County Judge/Executive Gerald West's Response:*

*We agree.*

**Reference Number 2002-15**

The County Should Properly Maintain Personnel Records

The county failed to maintain personnel files for all employees. The county was unable to locate personnel files for two of the ten employees selected for testing. We recommend that the county properly maintain personnel records for all employees in the future.

*Former County Judge/Executive Gerald West's Response:*

*This was jail record that was not given to us.*

**Reference Number 2002-16**

The County Treasurer And Finance Officer Should Properly Prepare An Appropriations Ledger For All County Funds

The county treasurer and the county finance officer did not prepare an Appropriations Ledger for the: Local Government Economic Development Fund, Kay Jay Recreation Fund, Timberland Tax Fund, 911 Fund, and the Solid Waste Fund. The county treasurer did prepare an Appropriations Ledger for the General Fund, Road & Bridge Fund and the Jail Fund. However, the ledger sheets did not contain a running total of expenditures or a running total of the free balance of the budget appropriations. The Uniform System of Accounts, as established by the Department for Local Government (DLG) requires that "APPROPRIATION LEDGER(S) – the ledger reflects, by account number, the original budget appropriation, the payee, increase/decreases by amendment or transfer, expenditures, and remaining balance. A page for each budgeted line item must be maintained in the ledger. The appropriation expenditure ledgers are to be maintained independently by the office of the county judge/executive and the county treasurer. Reconciliations should be made at least monthly in order to insure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriation expenditure ledger within the office of the county judge/executive independently from the computer system in the treasurer's office." We recommend that the county treasurer fully comply with the Uniform System of Accounts, by properly maintaining an Appropriation Ledger.

KNOX COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 20, 2002  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS: (Continued)

**Reference Number 2002-16** (Continued)

The County Treasurer And Finance Officer Should Properly Prepare An Appropriations Ledger For All County Funds

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*Former County Judge/Executive Gerald West's Response:*

*We did not have the computer until later in the year 2002. Ledgers were kept separately.*

*Current County Judge/Executive Raymond C. Smith's Response:*

*This is being done now.*

**Reference Number 2002-17**

The County Treasurer Should Include All Federal Revenues And Expenditures On The Federal Monies Worksheet

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The county treasurer did not include all federal revenues and expenditures on the Federal Monies Worksheet. It is important for the county to properly include all federal funds when completing this worksheet. Counties must have a Single Audit performed by March 31, following the fiscal year end if they expend in excess of \$300,000 of federal funds. Auditors use this worksheet in order to schedule county audits subject to Single Audit requirements. If the Federal Monies Worksheet is not prepared properly, then the auditors cannot make a clear determination of whether or not a Single Audit is necessary. When required, if a Single Audit is not performed by the deadline, the county could be in danger of losing federal funding in the future. We recommend that this worksheet be properly prepared in the future.

*Former County Judge/Executive Gerald West's Response:*

*We had a real problem determining whether the funds were Federal or State.*

*Current County Judge/Executive Raymond C. Smith's Response:*

*This will be done.*

KNOX COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Fiscal Year Ended June 20, 2002  
 (Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS: (Continued)

**Reference Number 2002-18**

The County Treasurer Should Account For Encumbrances Correctly

The county maintains a list of encumbrances. The encumbrances are listed on the 4<sup>th</sup> Quarter Financial Report. However, the list of encumbrances was not accurate for FYE June 30, 2002. We recommend the county treasurer accurately prepare the List of Encumbrances, and the amounts listed should agree to the county treasurer's 4<sup>th</sup> Quarter Financial Report.

*Former County Judge/Executive Gerald West's Response:*

*We agree and will correct in the future.*

**Reference Number 2002-19**

Lacks Adequate Segregation of Duties

The Knox County Fiscal Court has a weakness in their internal controls due to a lack of segregation of duties. We recommend that a qualified office employee independent of check writing and posting duties match purchase orders to checks and invoices. Also, we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the county treasurer and may reduce audit costs in the future. Initialing the purchase orders and invoices by this person and making sure the invoices are marked paid can be shown as evidence of this segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursements of cash, and the posting of cash to the ledgers delegated to separate individuals.

*Former County Judge/Executive Gerald West's Response:*

*We understand.*

PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS AUDIT

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Preceding Fiscal Year
- Lacks Adequate Segregation of Duties
- The County Should Have Complied With The Availability Terms Of The Brush Creek Water Line Extension Grant

KNOX COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Fiscal Year Ended June 20, 2002  
 (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
 AUDIT

**Reference Number 2002-20**

The County Should Have Complied With The Period Of Availability Of Federal Funds For The  
 Brush Creek Water Line Extension Grant

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U.S. Department of Housing and Urban Development  
 Passed-Through State Department for Local Government:  
 Community Development Block Grants-  
 Brush Creek Water Line Extension Project  
 (CFDA # 14.228)

The original grant agreement for the Brush Creek Water Line Extension Grant Project (Project) stated that the grant period would be January 1997 through April 1999. However, the Project was not started until after the required completion date of April 1999, and was not completed until June 13, 2002. The grant agreement states that federal awards may specify a time period during which the non-federal entity may use the federal funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency. The county submitted and was reimbursed all costs associated with the project.

We have been informed by the pass-through agent, Kentucky Department for Local Government, that they are aware of the untimeliness of the grant's progress but that as the oversight agency for the Community Development Block Grant, they make all determinations as to grant periods, extensions and acceptable progress. We recommend that Knox County monitor future grant projects for timely completion as required by the federal grant agreement.

Total  
 Questioned  
 Cost

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\$497,391

*Former County Judge/Executive Gerald West's Response:*

*This was applied for before we came in.*

*Current County Judge/Executive Raymond C. Smith's Response:*

*We agree.*



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



KNOX COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- Brush Creek Water Line Extension Project (CFDA # 14.228)	B-96-DC-21-0001(010)	\$ 497,391
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	769
<u>U.S. Environmental Protection Agency</u>		
Passed-Through State Natural Resources and Environmental Protection Cabinet- Stinking Creek Watershed Nonpoint Source Water Pollution Prevention Education and Demonstration Program (CFDA # 66.460)	C9994861-99	10,873
U.S. Department of Commerce Pride Grant (CFDA #11.469)	SG01-05 CF-0017	85,000 42,950
Total Cash Expenditures of Federal Awards		<u>\$ 636,983</u>

KNOX COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Knox County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

## SUMMARY OF PRIOR AUDIT FINDING



KNOX COUNTY  
SUMMARY OF PRIOR AUDIT FINDING

Fiscal Year Ended June 30, 2002

The County Should Have Complied With The Period Of Availability Of Federal Funds For The  
Brush Creek Water Line Extension Grant

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U.S. Department of Housing and Urban Development  
Passed-Through State Department of Local Government:  
Community Development Block Grants-  
Brush Creek Water Line Extension Project  
(CFDA # 14.228)

The original grant agreement for the Brush Creek Water Line Extension Grant Project (Project) stated that the grant period would be January 1997 through April 1999. However, the Project was not started until after the required completion date of April 1999, and was not completed until June 13, 2002. The grant agreement states that federal awards may specify a time period during which the non-federal entity may use the federal funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency. The county submitted and was reimbursed all costs associated with the project.

We have been informed by the pass-through agent, Kentucky Department for Local Government, that they are aware of the untimeliness of the grant's progress but that as the oversight agency for the Community Development Block Grant, they make all determinations as to grant periods, extensions and acceptable progress. We recommend that Knox County monitor future grant projects for timely completion as required by the federal grant agreement.

Total  
Questioned  
Costs

\$502,609

*Former County Judge/Executive Gerald West's Response:*

*Project has been completed.*

Auditor's Reply:

This issue was reported in our prior year audit report and was not resolved. This issue occurred again during fiscal year ended June 30, 2002, and is included in this report as comment # 2002-19. The county has not made any corrective action plan because the project has been completed

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

KNOX COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

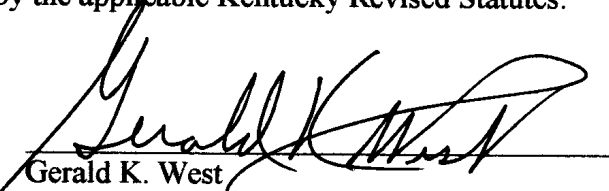


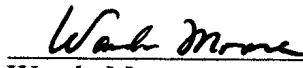
**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**KNOX COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2002

The Knox County Fiscal Court hereby certifies that assistance received from the local Government Economic Development Program and Local Government Economics Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Gerald K. West  
Former County Judge/Executive

  
\_\_\_\_\_  
Wanda Moore  
County Treasurer



